

Hearing on “North Carolina: China’s Impact on the North Carolina Economy: Winners and Losers”

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Panel V : The Bedroom Furniture Industry

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How have Chinese imports affected the wooden bedroom industry in North Carolina?

Simply stated, Chinese imports have devastated the wooden bedroom industry in North Carolina.

Several of the largest wooden bedroom producers in North Carolina have closed all their plants used to produce wooden bedroom. Broyhill Furniture based in Lenoir and Lexington Furniture based in Lexington, two of the largest wooden furniture manufacturing employers in North Carolina, operated more than a dozen woodworking plants ten years ago. Today all those plants have closed and both these companies import their bedroom furniture.

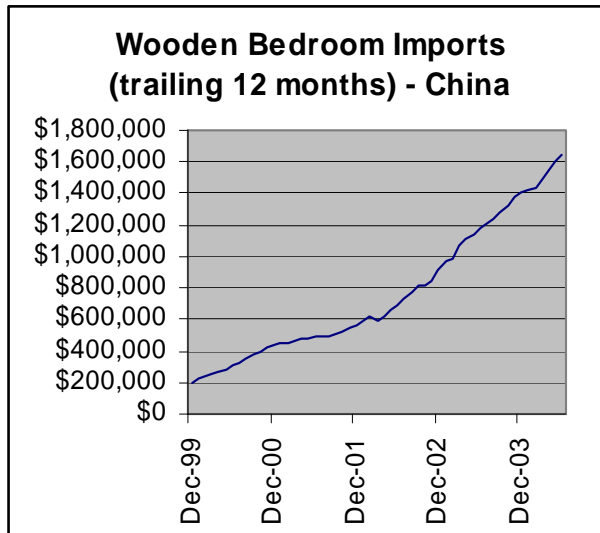
A quick look at most of the major domestic bedroom producers (most based or with significant operations in North Carolina) reveals the extent of the devastation. These companies (Broyhill Furniture, Thomasville Furniture, Lane Furniture, Henredon Furniture, Drexel Heritage Furniture, Lexington Furniture, Kincaid Furniture, American Drew Furniture, Lea Furniture, Pennsylvania House Furniture, Hooker Furniture, Pulaski Furniture, Stanley Furniture, Century Furniture, Bernhardt Furniture, Bassett Furniture, Progressive Furniture, Ethan Allen, Vaughan Furniture, Webb Furniture, Vaughan-Bassett Furniture, Virginia House Furniture, Sumter Cabinet, Athens Furniture, Keller Furniture, Dover Furniture, Moosehead Furniture, Cochrane Furniture, Universal Furniture, Crescent Furniture, Samuel Lawrence Furniture, Richardson Brothers Furniture, Southern Furniture Reproductions, Blackhawk Furniture, Boyd Furniture, Florida

Furniture, Kushwood Furniture, Pilliod Furniture and Rock City Furniture,) had over 125 woodworking plants 10 years ago; today, over 80% of those have closed their doors. Over two thirds of these companies are either out of business or no longer have any domestic bedroom manufacturing operations. Most of those that remain open are operating at reduced capacity, with fewer plants and with fewer workers. The cumulative reduction in wooden bedroom manufacturing has almost certainly exceeded 90%.

These closings have been accompanied by a surge of unemployed workers in many North Carolina communities. In wooden bedroom alone, 53 Trade Adjustment Assistance applications were certified between January of 2001 and October of 2004. With its large furniture manufacturing base and home of the largest furniture market in the U.S. (High Point Market), North Carolina has also been uniquely situated as supplier to the furniture industry. In addition to the hundreds of vendors who supply materials and supplies to the furniture manufacturing trade, North Carolina is home to many of the companies (and jobs) that provide services to the furniture industry. Accounting firms, advertising agencies and photographic studios are only a few. While the loss of direct employment in wooden bedroom plants has probably exceeded 90%, it is difficult to estimate the full effect on employment of the loss of bedroom furniture manufacturing in North Carolina.

How have legal and programmatic remedies to unfair trade worked in the case of the North Carolina furniture industry?

Imports of wooden bedroom furniture from China for the twelve months ending December 1999 were \$202,351,000. Imports of wooden bedroom furniture from China had exploded to \$1,649,125,000 (an increase of 715 %) for the twelve months ending June of 2004, the last month before preliminary antidumping duties on wooden bedroom furniture from China went into effect .



(amounts in 1,000's of dollars)

In the three years since antidumping duties have gone into effect, imports of wooden bedroom furniture from China have been about flat increasing only 1.8 % in the last twelve months ending June 2007, to \$1,679,310,000.



(amounts in 1,000's of dollars)

The market share for Chinese wooden bedroom imports relative to total wooden bedroom imports from all countries has also been dramatically affected. In December of 1999, China accounted for 15.6 % of all imported wooden bedroom furniture. By June of 2004, immediately prior to antidumping duties going into effect, China's share had grown more than three-fold to 52.9 % (more than all other countries combined), an average increase of over 8 percentage points per year. Since the antidumping duties have gone into effect, China's share has not only not increased, but has actually dropped by almost 7 percentage points to 46.0 %.

While results for furniture companies in the U.S. have been inconsistent, some companies focused and dedicated to domestic bedroom manufacturing have fared comparatively well. At Vaughan-Bassett, where over 97 % of our wooden bedroom sales are from product produced in our U.S. plants, our two U.S. plants have earned almost \$8,500,000 of operating income cumulatively in the two years since the final antidumping order has gone into effect (FY 2005 and FY 2006). 2007 has proved to be what most consider the industry's most challenging year in over fifty years. A vast majority of manufacturers/suppliers and retailers are reporting sales decreases of 10 % to 30 %, with a median decrease of about 15 %. Our sales decrease has been in the single digits and we have remained profitable this year. Importantly, we continue to employ over 1,000 workers in our two U.S. bedroom plants; this headcount is within 10 % of our maximum ever employed in these two plants, and we are working all of our workforce a full forty hour schedule. Without the antidumping order, we could not have achieved these results during this trying time. In fact many large companies who have converted from domestic manufacturers to importers of bedroom furniture have not fared nearly as well in this climate.

What changes to laws are needed to make them effective in discouraging/preventing unfair trade? What else could the government do?

Our industry never asked for any special help from the government or any protectionist measures. All we ever requested was that our government enforce the laws already on the books to give dedicated U.S. bedroom furniture manufactures a chance to compete with legally priced imports. Companies in our industry that have made the necessary financial commitment to compete, have benefited from these laws being enforced. These benefits could be quickly and irretrievably reversed if our trade laws are weakened. Between the original investigation and the recently completed first administrative review, the U.S. Department of Commerce has calculated significant dumping margins (greater than de minimis) for the vast majority of the mandatory respondents who have been individually investigated. The weighted average dumping margin was calculated to be over 35 % in the recently released final results of the first

administrative review. If for any reason, dumping at these rates were allowed to occur unchecked by vigorous enforcement of our trade laws, it would almost certainly guarantee the destruction of the remaining U.S. wooden bedroom manufacturing industry.

The U.S. Commerce Department's adoption of combination rates in administrative reviews for wooden bedroom furniture from China would dramatically help avoid circumvention of the enforcement provided by our antidumping laws.

In addition to weakening our antidumping laws, the greatest threat posed to our industry is through circumvention of the antidumping order. The easiest way for Chinese manufacturers to circumvent the order is to simply export their product through a different Chinese exporter who has been assigned a lower dumping margin.

- Evasion of Duties Under current U.S. Department of Commerce practice, which I'll discuss in more detail in a moment, imports from China that are subject to an antidumping duty order are assessed cash deposit rates under a process that identifies only the Chinese exporters. Remarkably, no attention is given to the manufacturer that actually produced the merchandise. Consequently, exporters that have been assigned low antidumping duties can, if they are willing, serve as a conduit for imports from any Chinese producer, even producers that have been assigned high antidumping duty margins.
- We and others have been unsuccessfully asking Commerce to exercise its acknowledged authority to adopt a policy of assigning "combination rates" instead of exporter-specific rates. Combination rates are cash deposit rates assigned to groupings of an exporter and the producer or producers that actually manufactured the merchandise. A change to combination rates would be significant for U.S industries involved in antidumping cases. Here's why.

- The first administrative review of the antidumping duty order on Wooden Bedroom Furniture from China demonstrates the threat presented by Commerce's policy of assigning cash deposit rates only to exporters, rather than to exporter/producer combinations.
 - First -- there are a huge number of Chinese producers, some say more than 30,000, and the first administrative review involved more than 100 companies.
 - Second -- the applicable antidumping duties and corresponding cash deposit rates established by Commerce ranged from 0.5 percent to 216 percent. Most Chinese exporters have rates of 7 percent, 35 percent, or 216 percent.
 - Here's what all this means. Under current Commerce practice, the manufacturer responsible for the exports assigned the 216 percent rate could quite easily export merchandise to the U.S. by paying cash deposits as low as 0.5 percent. In fact, because Commerce refuses to adopt a policy of assigning combination rates in administrative reviews all that stands in the way of this occurring are the people running the Chinese exporters with the low rates. If those individuals can be persuaded to act as the exporter for any high-margin producer then their low cash deposit rates would be applied by U.S. Customs. Given the huge number of producers and the wide array of margins assigned in the last administrative review there are many opportunities for producers and exporters to collude and funnel products through low-cost import channels.
 - Again, all this is because Commerce only identifies exporters and not exporters and producers when assigning cash deposit rates in administrative reviews.

- Current Practice Now I'll give you some background on Commerce's current practice, and the inexplicable nature of the agency's refusal to adopt a policy of assigning combination rates in administrative reviews of exports from China.

- First, Commerce already applies combination rates in all investigations, whether the exporter is located in a market economy such as Japan or in a non-market economy country such as China. In April 2005, the agency officially adopted use of combination rates in investigations involving non-market economy countries, saying it was the only way it could “prevent the ‘funneling’ of subject merchandise through exporters with the lowest rates.” When it adopted that policy the agency said it was evaluating extension of the practice to administrative reviews.
- Second, in early 2006 Commerce stated that there is no legal barrier to simple adoption of combination rates in administrative reviews involving exports from China. It specifically addressed the issue in an administrative review involving crawfish from China, and in doing so it straightforwardly asserted that it could adopt the policy without undertaking the formal notice and comment process associated with modifications to its regulations. Consequently, Commerce can start assigning combination rates in administrative reviews at any time. It just does not want to do so and it has never given a satisfactory explanation for that reluctance.
- Third in early 2004 Commerce assigned combination rates in an administrative review involving pistachios from Iran, a so-called market economy country, although when issuing this decision the agency set out a potentially difficult test. Still, with these three developments the agency is now applying combination rates in all proceedings except administrative reviews involving imports from non-market economy countries like China.
- Commerce’s handling of this issue in the Wooden Bedroom Furniture We raised this issue with Commerce in the just-completed administrative review on Wooden Bedroom Furniture. Commerce’s answer was very disappointing.
- In response to arguments from Chinese producers opposing adoption of combination rates in reviews, the agency reasserted its position that it has legal

authority to adopt the policy, and that it can do so at any time without going through the onerous procedures associated with administrative rulemaking. This is a good.

- The agency then went on to recognize exactly the threat we are facing: numerous Chinese producers and opportunities for funneling imports through low-margin exporters, but once again denied the domestic industry's effort for this additional, important form of protection, saying:

While the respondents in this administrative may have the ability to source wooden bedroom furniture from a large pool of PRC suppliers, some of which may be subject to a high "PRC-wide rate" [that is, the 216 percent rate], we do not find the facts in the instant review are persuasive enough to warrant issuance of a combination rate to all respondents and their producers at this time" Wooden Bedroom Furniture, Final Decision Memo at Comment 5.

- Closing It is difficult for us to understand the Department of Commerce's reluctance to adopt combination rates in administrative reviews involving imports from China. The agency has repeatedly said it has authority to do so, it has adopted the policy in every other type of antidumping proceeding it handles, and it has repeatedly acknowledged the threat of imports being "funneled" through exporters that have been assigned low deposit rates, but it still leave us without this simple remedy for an acknowledged threat.